

Padeniya- Anuradhapura Road Improvement Project - 2018

The audit of financial statements of the Padeniya- Anuradhapura Road Improvement Project for the year ended 31 December 2018 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Article 1 of the Loan Agreement No. SRI 18 dated 19 December 2008 entered into between the Democratic Socialist Republic of Sri Lanka and the Export and Import Bank of Korea. My comments and observations which I consider should be report to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreement, then Ministry of Highways, Ports and Shipping, presently Ministry of Roads and Highways is the Executing Agency and Road Development Authority is the Implementing Agency of the Project. The objectives of the Project are (a) to activate the region's exchange in goods and people as well as promote national economic development and balanced regional development by cutting social costs and raising industrial competitiveness through improvement of the road section between Padeniya – Anuradhapura Road located in the key traffic point of the Northern Central region of Sri Lanka and (b) to link the Road to the Katunayake – Padeniya Road to strengthen the international competitiveness of Sri Lanka's tourism industry by facilitating passenger transportation to the Northern Central region of Sri Lanka. As per the Loan Agreement, the estimated total cost of the Project was US\$ 81.73 million equivalent to Rs. 10,902.90 million and out of that US\$ 66.32 million equivalent to Rs. 8,786.93 million was agreed to be financed by the Export and Import Bank of Korea. The balance amount of Rs.2,115.97 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 01 July 2009 and scheduled to be completed by 01 January 2012. However, the date of completion of the activities of the Project had been extended up to 30 November 2012.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

1.6 Auditor's Responsibilities for the audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Physical Performance

2.1 Physical progress of the activities of the Project

The re-construction works of the Road had been completed and handed over to the Road Development Authority on 30 November 2012. However, the operations of the Project Monitoring Unit had been continued up to 31 December 2018, due to unsettled issues on acquisition of lands.

2.2 Matters in Contentious Nature

The following observations are made.

	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	Eventhough the civil works of the Project had been completed and handed over to the Road Development Authority on 30 November 2012, the Project Monitoring Unit is still being continuing and no instructions had been issued by the Executing Agency to wind up the operations and wind up the accounts of the Project.	Operations of the Project Monitoring Unit are continued without specific purpose.	Since there are some payments on land acquisitions, Project Monitoring Unit had to be continued until those payments are finalized.	Need to transfers the responsibility to settle the issues on land acquisition to the Road Development Authority and minimize the operational costs of the Project.
(b)	The special advance amounting to Rs. 11.28 million had been obtained from the Road Development Authority was remained unsettled as at 31 December 2018.	Continuation of balances unsettled.	Sufficient allocation was not received to settle the advance.	Need to adjust the accounts in order to settle the balances.